

# SOME PROBLEMS OF THE PANAMA CANAL

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ADDRESS OF  
HENRY L. STIMSON

SECRETARY OF WAR

BEFORE THE COMMERCIAL CLUB AT  
KANSAS CITY, TUESDAY EVENING,  
NOVEMBER 14, 1911

*Gift of the Panama Canal Museum*



WASHINGTON  
1911



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I am very glad to have this opportunity to meet the representative business men of Kansas City. I have already had occasion to mark the public spirit of your community and the vigor with which you can take up an industrial problem. More than five years ago, when I was first appointed Federal attorney in New York City, you were engaged in your long fight for fair railroad rates to the Missouri River and to put an end to the rebates and discriminations which had previously existed. One of my first official duties was to engage in a similar struggle to free from corresponding abuses the trunk lines of railroads leading out of New York City toward the West. I remember very clearly the encouragement which I received in my efforts from the success which you had already attained in yours.

Recently, since I have been appointed to the head of the department which has in charge the building of the Panama Canal, I have noted with great satisfaction the intelligent interest which your city is taking in this enterprise and the farsighted efforts which your citizens have been making for the purpose of developing navigation on the Missouri River and thereby placing Kansas City in a position where it will be sure to share in the great expansion of Gulf trade which must come with the opening of the canal.

What I wish to say to you to-night concerns some of the present problems which arise out of the construction of that canal. We are a little in danger of finding ourselves in a singular position. We are engaged in completing the greatest engineering work of the ages. Our national pride is keenly centered around it. We love to dwell on the spectacular triumphs which have already been achieved—our conquests over the dreaded diseases of the Tropics and the splendid harmony with which American energy and American inventive skill are uniting in removing mountains, changing the courses of rivers, and creating a huge waterway. We dwell on the immense vista of economic changes in the world's trade which will be created by the opening of this new transisthmian route.

And yet at the same time we are in danger through our own neglect of finding ourselves with the canal all ready on our hands and no provision made for its operation. Part of this is due to the fact that our Army engineers, always efficient and never loquacious or self-advertising, are rushing through this great work in far less than the schedule

time. When the next rainy season commences with May the water will begin to rise in the great ditch until at the close of that season it is expected that it will reach at least the 45-foot level. That would mean water enough to float small boats throughout its length. And unless unforeseen catastrophes occur the canal will be fully ready for ocean traffic more than a year before the time set for its formal opening.

The engineers and the workmen will have done their part; let us see what remains for you and me.

In the first place, we must create a permanent organization to operate the canal and must train the force of men necessary for this operation. By the act of Congress of June 28, 1902, known as the Spooner Act, the President of the United States was directed to cause the canal to be excavated, constructed, and completed, and was authorized for that purpose to employ such persons as he deemed necessary and fix their compensation. As soon as the canal is completed, his authority and that of every one of his subordinates will cease. Even now as the work is nearing completion the time is at hand when the skillful force of trained men who have been engaged in its construction must be gradually disbanded and sent back to the States. This work of disintegration must commence within a few months; and unless Congress gives authority to gradually blend the constructing force, or so much of it as is needed, into a trained force for permanent operation, we shall be reduced to the expensive and somewhat ridiculous proceeding of shipping our 5,000 skilled American operatives back to the States, only to begin immediately afterwards the painful process of collecting and breaking in a new operating force. Only those of you who have visited the Isthmus and who have seen the splendid characteristics of the men now there, their trained skill and their superb loyalty to and enthusiasm in their work, can appreciate what an economic loss would be involved in such a performance.

There then comes up the question of what kind of legal organization or government we are to create in order to train this force and thereafter for all time operate the canal and exercise our control over the surrounding zone. In deciding this question much depends on keeping the fundamental facts clearly before us and not being led away by loose generalization or false analogies. The problem differs wholly from that which confronts us, for instance, in Porto Rico or any of our other insular possessions. The Canal Zone contains no place for an independent, permanent population. I went over it pretty thoroughly myself last summer, tramping through large portions of its jungles on foot with Col. Goethals. From an agricultural standpoint it is the least attractive part of almost the entire Republic of Panama. It is a strip only 10 miles wide and 40

miles long. About a quarter of that strip will eventually be filled by the Gatun Lake. The rest of it is either tropical swamp and jungle or low, rocky hills. There are none of the fine grasslands which can be found in other portions of the Republic. It is preposterous to think of it ever forming a basis for an American farming settlement. Its only present population, outside of the construction force, consists of a few negro squatters, formerly workmen on the canal, who have jumped their job and prefer to live on poorly cultivated banana trees.

This characteristic of the zone, this utter absence of all possibility for a future independent population, is most fortunate. It gives us a chance to frame an organization adapted directly to our main purpose and uncomplicated with other problems of government. The problem reduces itself to the management of a great public work, and not the government of a local republic. The question is that of opening and shutting the lock gates and of protecting them in time of trouble; it is not a question of educating or of uplifting a dependent people. The men who are to do this work are not to be the representatives of a local democracy on the Canal Zone, but rather the trusted agents of the 90,000,000 of American people whose national welfare is tied up in the canal and its safety. It is essentially an executive problem, and there is no more reason for introducing all the complex checks and balances of government which we rightly regard as essential to a self-governing community than there would be to permit the men of the Regular regiments which we are sending there to protect the canal to provide for their own discipline or choose their own commanders. Of course we shall have to have local courts in the zone for the purpose of administering local justice and safeguarding individual rights, and there may be some other minor civil functions to be attended to; but the main function of Canal Zone government will be canal administration, and nothing else.

We can not get away from the fact that at bottom the canal presents a military problem. For defensive purposes the Panama Canal practically doubles the capacity of our fleet. It is a measure of defense of most terrific effectiveness. The three hundred and seventy-five millions which we are spending on it not only develop enormous possibilities of peaceful trade, but at the same time is virtually equivalent for defensive purposes to the expenditure of a nearly equal amount in navy. To have it blockaded at a critical moment in our national life either by accident or design, by inefficiency or malice, might be quite as disastrous as having 20 of our battleships sunk at sea. The temptation which that mere fact imposes upon any nation with whom the United States may be at war must never be forgotten or lost sight of. Correspondingly, its military effectiveness will make it a powerful ally in assuring a maintenance of peace.



Nor must we for a moment forget the sanitary problem. For 400 years this strip of land was notorious as the plague spot of the Americas. It has been redeemed and kept free from disease during our work of construction only by the most unceasing vigilance and the constant use of the Executive power. The necessity for this vigilance will continue. In some respects it will be even greater after the canal is opened, when swift vessels passing through it become possible media for transmitting to all portions of the world the contagion of the dreaded yellow fever. Only a continual vigilant use of the administrative power can insure us against such possible contagion.

In short, it seems to me that we can safely guide our course in the future by our experience in Panama in the past. The landmarks of each problem are the same. To successfully operate and safeguard the canal is as purely an administrative undertaking as to successfully construct it, although the mechanics of the two tasks are, of course, entirely different. The canal is being constructed under the flexible system of Executive administration. The President was directed by Congress to build it, and he is building it. As each complicated problem of construction or administration has come up the system which Congress thus wisely adopted has been found sufficiently flexible to allow it to be developed and changed to meet each contingency.

That same policy should be continued as to the operation. The President should be authorized and directed to operate the canal through such forms of administrative government as he may devise. This is a policy appropriate to meet the military and naval problems which underlie the situation, because the President is the constitutional Commander in Chief of the Army and Navy. It furnishes the most efficient method of government, and we need efficiency in dealing with a subject matter so vitally important at all times to our Nation as the smooth working of this canal. Thirdly, it is a method flexible enough to meet the new and uncertain problems which are bound to arise.

I am glad to say that these features have been recognized in the bill reported to the last Congress by the Committee on Interstate and Foreign Commerce, which bill, in substantially the same form, has been introduced into the present Congress. I sincerely hope that these features will be preserved in the legislation which is eventually adopted, and that such legislation will be adopted soon.

The second problem which lies before us is to provide the machinery which will determine and fix the proper tolls to be charged to the vessels using the canal. The solution of this commercial problem is even more pressing than that of organizing the canal government. The canal is built to secure trade. The great benefits which we



anticipate from it will only come from its adoption as a route of trade. But modern trade does not change its routes instantaneously.

The Panama Canal will have at least three great competitors—the Suez Canal, the Tehuantepec route of Mexico, and our own trans-continental railroads. The amount of commerce which will use it will depend to a large extent upon the comparative cost of transportation over these different routes. It is said that a dollar per ton of freight per thousand miles represents the coal consumption of the slow-going freight steamer. In other words, every dollar per ton which we charge as tolls for the canal will neutralize a thousand miles of the advantage in distance which the Panama route may have over any competitor. Under these conditions the amount of commerce which will use it is largely a question of tolls. And in order to make their plans, to build their steamers, to make their contracts, and assume all the other long-time obligations which enter into modern trade, shipowners must know about two years beforehand what the rate of toll through the canal will be. For many months already we have been receiving letters from agents of ocean transportation lines pressing upon us the solution of this question, and I know at least one line which has been obliged to take the risk of laying down the keels of five great steamers for use in this traffic without knowing as yet the conditions upon which the use of these steamships will depend.

The power which fixes the canal tolls must be sufficiently flexible to readjust itself to meet changing conditions of time and competition; it must be susceptible of continuous watchfulness preparatory for ready action; and it must have the capacity to deal with technical commercial facts. These are the characteristics of an administrative officer or board. The legislation which provides for the canal tolls should indicate the broad lines of national policy within which the tolls are to be fixed. But it should provide power for the establishment of an administrative officer or board who will be always in session, always studying the problem and acquiring information thereon, always watchful against new or shifting conditions, and who shall have power, within these broad lines of policy, to fix or change the tolls so as most effectively to insure that this new trade route shall fulfill the great national and international functions for which it is intended.

Closely involved in this question of fixing the tolls is the question whether the United States has the right to pay the tolls on American vessels using the canal. There has been criticism against even the suggestion of this possibility. There was similar criticism a few years ago against the proposition to fortify the canal, until the publication of Secretary Hay's correspondence with Lord Lansdowne revealed the frankness of our negotiations on that subject with Great Britain and showed how clearly Great Britain had recognized our

right to fortify the canal. The United States will deal with its sister nations in perfect frankness and in absolute fulfillment of its treaty pledges. There will be no violation of our treaties; neither will there be any evasion of them. When the facts as to this question are examined, they are in my opinion so clear as to leave no doubt or question as to the right of the United States, both legal and moral, in this respect. The clause of the Hay-Pauncefote treaty which governs the question is a declaration by the United States which expressly adopts the rules governing the Suez Canal. It provides:

The United States adopts, as the basis of the neutralization of such ship canal, the following rules, substantially as embodied in the Convention of Constantinople, signed the 28th October, 1888, for the free navigation of the Suez Canal; that is to say:

1. The canal shall be free and open to the vessels of commerce and of war of all nations observing these rules, on terms of entire equality, so that there shall be no discrimination against any such nation, or its citizens or subjects, in respect of the conditions or charges of traffic, or otherwise. Such conditions and charges of traffic shall be just and equitable.

Now, in the case of the Suez Canal, it has never been considered a violation of this rule of neutralization for a nation to pay the tolls upon the vessels flying its flag. This is done directly by the Governments of Russia and Austria-Hungary, which have made appropriations for the express purpose of paying the tolls of vessels of their merchant marine. Furthermore, substantially every other European Government appropriates from its treasury and pays to vessels using the Suez Canal, in the form of subsidies, sums of money fully or partly equivalent to the tolls of the canal. In the case of Germany, France, Japan, Italy, and Spain, the amount thus appropriated is regularly more than sufficient to pay the tolls. In the case of Great Britain the subsidies paid to the Peninsula & Oriental Co.—the principal line which uses the canal—amount to nearly six-sevenths of the tolls. These subsidies were not all limited to mail steamers; many of them were paid likewise on freight steamers.

It is perfectly clear, therefore, that when the Panama Canal is opened, the English vessels which use it, the German vessels which use it, the vessels of practically all of our competitors which use it, will be in receipt from their respective Governments of sums of money, either given them directly for the purpose of paying their tolls or perfectly applicable in their discretion to such use. It will be impossible for the United States to prevent this; for under the Suez rules which we have thus adopted for Panama, such payment does not amount to a discrimination or a violation of the terms of entire equality for which those rules provide. Is, then, the United States, which built the canal, to be the one nation whose vessels can not have such assistance? Will any rule of construction of the Hay-Pauncefote treaty or any rule of honor prevent the United States

from adopting a similar course? Will anyone contend that the almost universal system of governmental assistance to a merchant marine has been limited, in our case, by the Hay-Pauncefote treaty—limited, not by plain and express covenant, but by indirection and implication? Would Great Britain dream of making such a contention against the United States when she herself is paying annual subsidies to her merchant marine of between six and seven million dollars a year? Has the United States, in her covenant to “insure the neutrality of the canal on terms of entire equality” so shackled her own powers that she can not resort to the universally established methods which her competitors will use in respect to their vessels passing through the canal? Does equality to all other nations mean inequality to the United States? The answer is self-evident.

The clause was never intended to forbid a nation to assist her own marine with her own funds. By it the United States barred herself from using her power over the canal to injure the trade of another. She could not isolate or discriminate in any way against another in that other's use of the canal. But it was never dreamed that she could not use the resources of her own treasury in favor of her own vessels.

I think, therefore, that the United States has a clear right to appropriate to the vessels, paying the same the sums paid into its treasury by those vessels in the form of canal tolls. This being so, there is no difference, save in form, whether she makes this appropriation out of her treasury to such vessels by receiving the money from them first and repaying it to them, or by simply relieving them from the payment of those tolls. In either case the money in question belongs to the United States. In either case it amounts to a gift by the United States of her own funds to the vessels in question.

The existence of the right is clear; the need or wisdom of its assertion presents a broad question of policy. The exercise of this power must depend upon the conclusion, based upon full understanding of the facts, that the National interests will be furthered by securing this advantage to American vessels engaged in trans-Isthmian trade.

This question of tolls has thus far been discussed mainly in respect to our coastwise traffic. This coastwise trade presents a special problem. In one respect it has less need of a canal subsidy than our foreign trade because it already has a Government monopoly. While our vessels engaged in foreign trade have been virtually driven off the ocean by foreign competition our coasting trade still exists because no other than American vessels are permitted by law to engage in it.

But, on the other hand, our coastwise traffic is subject to the competition of our transcontinental railroads, and this is really the controlling feature of the problem. One of the main benefits which the United States expects from the canal is its effect upon transconti-

mental rates. It virtually makes our east and west coasts contiguous. It gives us water transportation to regulate our railroad rates. The history of the Panama route for the last half century furnishes a fair indication of the danger which we have to fear. In spite of its many advantages, the present Panama railroad route has never been an effective competitor of our great transcontinental railroads. The public have never received any real benefit from its competition. The matter has been investigated congressionally, and the history of the way in which the railroads have throttled this possible competitor is a matter of record. In early days the Panama Railroad Co. was frankly paid \$75,000 a month, with the object of suppressing its traffic. In later days, through other and more indirect arrangements, transisthmian business has been discouraged and kept down and the rates over the Isthmus have been kept up, with the result that at the present day it is said that not less than 90 per cent of our trade between our east and west coasts is carried by our transcontinental railroads.

One thing is perfectly clear—we must be more successful in the future than we have been in the past. The country has not put its money into the canal merely in order to allow this new route to be throttled as the old one was. And the public temper will see that this is prevented. If the influences which have united against the old route are unwise enough to attempt to stifle the competition of the new, means more and more drastic will undoubtedly be resorted to in order to frustrate such an attempt. I say “unwise” because the history of the world is full of such attempts and furnishes conclusive proof of their shortsightedness. I believe that the opening of the canal instead of being a loss will ultimately be a benefit to the railroads themselves in the new local trade which it will encourage and develop. That has been the history of the opening of practically every new trade route or improved method of transportation.

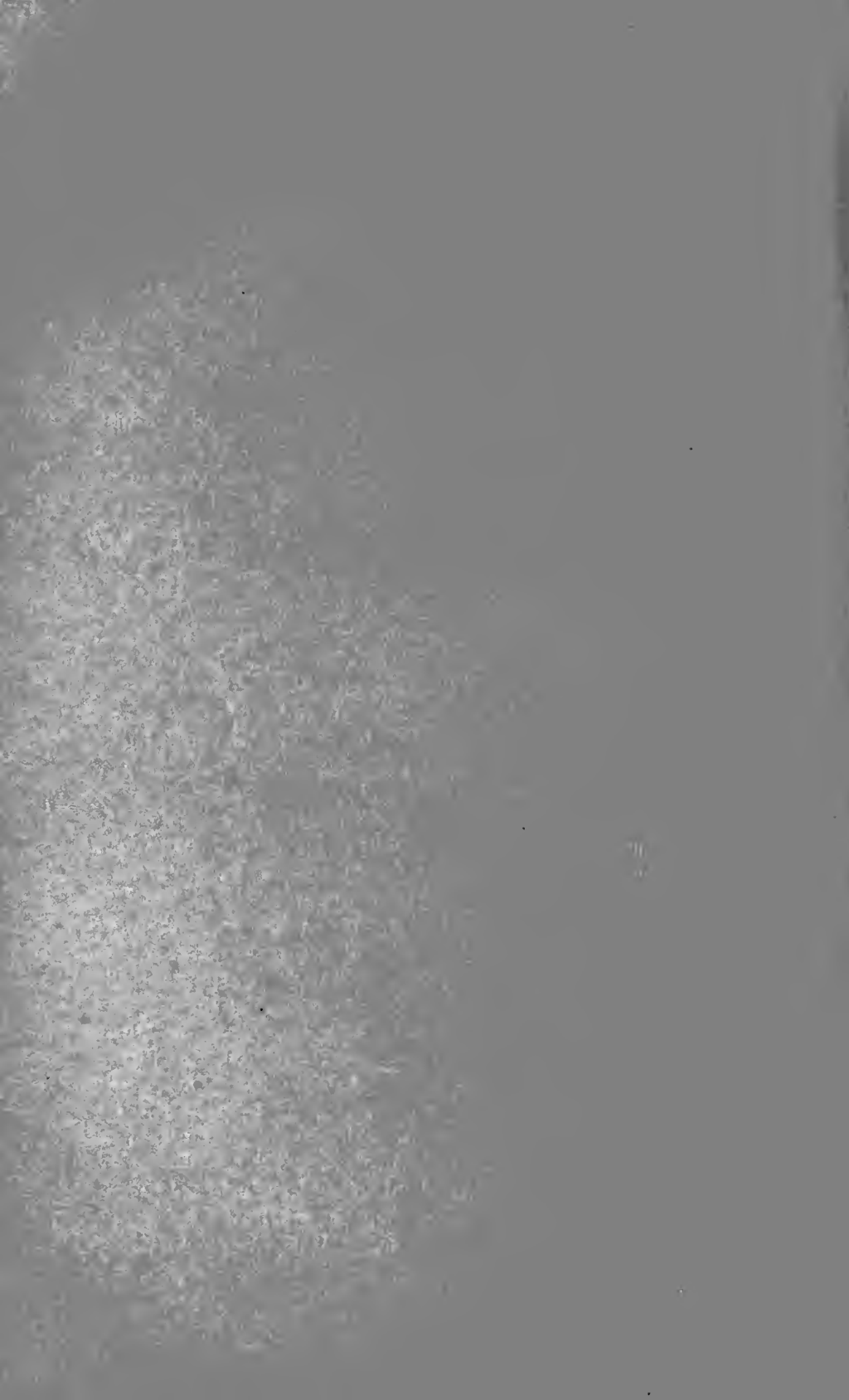
It has already been suggested, as a means of keeping the canal free from railroad control, that we establish a Government-owned line of steamers through the Panama Canal. But this method would be such a radical departure from the policy on which our national transportation systems have been hitherto developed that I think it may well be kept in the background until other more usual methods have been attempted and found wanting. I believe that there is abundant opportunity for the employment of private capital in the development of our transisthmian traffic, and that it should be the policy of the Nation to encourage the development by independent capital of as many lines and as much commerce through the canal as possible.

I am inclined to believe that the most effective solution of the problem will be to extend over this new transisthmian route the

power of the Interstate Commerce Commission, including its regulative power over rates. Such a method would permit the development of this new form of interstate commerce along the same historical lines as those which we have followed successfully in our interstate commerce development hitherto. I personally believe it would be more effective in keeping down water rates than a negative prohibition against railroad ownership or control, although the negative prohibition is strongly urged by many persons thoroughly familiar with the situation. Both methods could be tried at the same time if desired.

To sum up, our legislation on canal tolls should, in my opinion, authorize the President, through such administrative process as he may establish for the purpose, to fix these tolls and change and readjust them to meet the lessons of experience. If Congress shall decide upon the policy of encouraging American shipping by a subsidy of canal tolls, it should authorize the President to apply that policy to such extent and in such manner as will best subserve the purpose intended. I personally hope that Congress will so decide. I believe that this Nation should put itself in a position of readiness to wisely assist its merchantile marine in this respect. Experience may show the assistance to be more necessary as to some classes of shipping than as to others. Experience may show, for example, that our coast-wise lines can meet their railroad competition without this additional aid. To give it under such circumstances would not lower rates; it would simply add to the profits of the shipowner. But such legislation as is enacted should be enacted promptly and with due regard to all the elements of the problem to be met.

The completion of the Panama Canal will practically coincide with one of the turning points of our national life. Hitherto we have been absorbed in the domestic problems of a young Nation. We have barely finished the conquest of our own unoccupied land. Now that that land is gone we are necessarily turning to foreign markets as a field of activity. With each advancing decade our manufactures and our foreign trade will become more vitally important. Each decade will see our citizens turning their eyes toward the ocean—toward that commercial future which lies over seas. The reestablishment of our national merchant marine is a necessity which will become clearer with every year that passes. Let us take our first steps upon the right lines for future growth. Let us prepare for the fullest utilization of this great canal which we have built by a wise and far-sighted treatment of its problems, which will tend at the same time toward the establishment of that national commerce which can alone bring us any benefit from the canal. The problems far transcend party lines. It is a national problem demanding national treatment.







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